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Zapatero Prepares for G-20 Financial Crisis Summit

1.(U) President Zapatero prepared for Saturday's G-20 summit by meeting separately on November 10 with members of the Spanish business community, bankers, and labor leaders and on November 11 with opposition leader Mariano Rajoy. Media reports suggest that he will use his summit statement to explain the benefits of Spain's banking regulations. The Bank of Spain's countercyclical loss provisioning has been frequently cited, including by a Nov. 10 Wall Street Journal article, and the central bank's refusal to allow banks to hold certain assets off their balance sheets is something Zapatero may also mention. GOS officials have attempted to lower public expectations that the summit itself will result in immediate changes, emphasizing the importance of the followup process. Press reports suggest that Zapatero may call for broader participation than just the G-20 in the followup process. (All media, 11/11 and 11/12)

2.(SBU) Comment: Zapatero had risked domestic political damage by very publically insisting the Spain would participate even though it does not belong to the G-20. By successfully jockeying for a position at the summit, he has accomplished two things. First, focusing on the summit makes it easier for him to continue to blame Spain's economic difficulties on outside forces rather than on the domestic housing slump. Second, it somewhat addresses the recurring opposition criticism that under Zapatero Spain has not been a relevant player in the international arena. On the other hand, any perception that he has led Spain to a greater role is affected by the widespread understanding that he owes his presence at the summit to French president Sarkozy. We expect Spain to seek to be involved in the followup process. End Comment.

2009 Growth Projections Continue to Fall

3.(U) Secretary of State for Economy David Vega said on November 12 that the GOS would revise in December its GDP growth estimate for 2009. In its proposed 2009 budget, the GOS had estimated 1% growth for 2009, but this now looks to be too high. The IMF has estimated that the economy will contract by 0.7% (which Vega said seemed pessimistic), and BBVA bank estimated on November 12 that the contraction would be 1.0%. (El Pais, 11/12)

2009 Budget Passes Lower House

4.(U) On November 11, the lower house of Parliament passed the Zapatero-proposed 2009 budget with few amendments. Although the budget must be confirmed by the Senate and signed by the President before becoming final, passage in the lower house is considered practically a guarantee of final approval. The ruling Socialist party pushed the bill through after obtaining support from the National Basque Party (PNV) and the National Block of Galicia, traditional allies in the budget process. The 2009 proposed budget envisions a 2% increase over 2008 with a projected deficit of 1.5% of GDP. Secretary of State for the Economy and Finance Carlos Ocasio noted November 13 during a conference that the prevailing themes of the 2009 budget are 1)austerity, 2)redistribution of funds towards R&D and infrastructure investments, and 3)social spending, particularly to support the unemployed. (El Pais, Embassy, November 13)

Gazprom Considering Purchase of 20% Stake in Repsol

5.(U) Russian Vice President Alexander Zhukov confirmed November 12 during a meeting with Spanish Minister of

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Industry Miguel Sebastian that Gazprom is studying the possibility of purchasing 20% of oil and gas company Repsol. The purchase would make Gazprom the largest single stakeholder in Repsol, which is the world's eighth largest oil company. Troubled Spanish construction firm Sacyr Vallehermoso is offering its stake, currently valued at 3.5 billion euros. Russian analysts suggest the announcement to be more of a wish than a reality, as Gazprom's current priority is debt reduction. EC Energy Commissioner Piebalgs told reporters he did not believe Gazprom could carry out the purchase because of the recent decline in oil and gas prices, adding that if an offer was formalized, the EC would have to analyze it "taking into account all the factors." Media report that President Zapatero and Vice President/Minister of Economy Pedro Solbes oppose the sale of the stock to Gazprom, and opposition leader Mariano Rajoy is quoted as being "radically against" such a purchase. Gazprom is not the only Russian company interested in Sacyr's Repsol stake, according to Sacyr President Luis del Rivero. (All Media)

Santander Issues New Shares to Add Capital

6.(U) Spain's largest bank, Banco Santander, informed regulators that it would issue shares worth 7.2 billion euros to increase its core capital ratio by 25%. It had said in October that it would sell assets to raise capital, but it decided to issue shares instead and hold onto the assets until market conditions improve. Some press reports interpreted the move as a sign that Santander would not seek to take advantage of GOS funds available to buy assets from banks. Santander's stock fell afterwards. Rival bank BBVA said it had sufficient capital and would not need to issue new shares. (El Pais, 10/10; MarketWatch.com, 10/10; El Confidential 10/11)

Iberdrola First Spanish Company to Issue Bonds Since Lehman Bankruptcy

7.(U) Electricity company Iberdrola raised 1.6 billion euros on November 13 in the first Spanish bond issuance since the

Lehman Brothers bankruptcy in September. Interest rates were high; for 1 billion euros in three-year bonds it paid 290 basis points over the relevant index (or 6.375%), while for 600 million euros in seven-year bonds it paid 365 basis points over a different index (or 7.5%). For comparison, Iberdrola had paid 83 and 110 basis points over the relevant indices when it issued bonds for five and ten years (on which spreads should be higher than on three- and seven-year bonds) in April of this year. A company official said Iberdrola would use the proceeds to add liquidity and refinance debt. (El Confidencial, 11/14)

Violent Protest Against Nissan Job Cuts

8.(U) Several hundred protestors pelted Nissan headquarters offices in Barcelona with bottles, eggs, rocks, and crowd-control barriers on November 11 in protest of Nissan's decision to cut 1,680 jobs in Barcelona. Nissan's announcement comes on the heels of especially poor car sales in Spain due to falling demand. Volkswagen and Ford have also announced that they will cut down on labor hours in their Spanish factories. The auto industry is particularly important for the Spanish economy, as Spain is the eighth largest auto manufacturer in the world. (El Pais 11/13)

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